

The Essence of Evidence-Based Investing

Grounding your strategy in rational methodology helps you best determine and stay on a course toward the financial goals you have in mind, especially when your emotional reactions threaten to take over the wheel. This is known as **evidence-based investing**. So what does evidence-based investing entail?

Market Return Factors: The Essence of Evidence-Based Investing

Since at least the 1950s, a “Who’s Who” body of scholars has been studying financial markets to answer key questions such as:

- **What drives returns?** Which return-yielding factors appear to be persistent over time, around the world and across a range of market conditions?
- **How does it work?** Once identified, can we explain why particular return-yielding factors exist, or at least narrow it down to the most likely causes?

Financial Scholar vs. Financial Professional

Building on this level of academic inquiry, fund companies and other financial professionals are tasked with an equally important charge: **Even if a relatively reliable return premium exists in theory, can we capture it in the real world – after the implementation and trading costs involved?**

As in any discipline from finance to medicine to quantum physics, it’s academia’s interest to discover the possibilities; it’s our interest to figure out what to do with the understanding. This is in part why it’s important to maintain the bifurcated roles of financial scholar and financial professional, to ensure each of us are doing what we can do best in our field.

The Rigors of Academic Inquiry

In academia, rigorous research calls for considerably more than an arbitrary sampling or a few in-house spreadsheets. It typically demands:

A Disinterested Outlook – Rather than beginning with a point to prove and then figuring out how to prove it, ideal academic inquiry is conducted with no agenda other than to explore intriguing phenomena and report the results of the exploration.

Robust Data Analysis – The analysis should be free from weaknesses such as:

- **Suspect data** that is too short-term, too small of a sampling to be significant, or otherwise tainted
- **“Survivorship bias,”** in which the returns from funds that were closed down during the study (usually because of poor performance) are omitted from the results
- **Comparing apples to oranges**, such as using the wrong benchmark against which to assess a fund’s or strategy’s “success” or “failure”
- **Insufficient use of advanced mathematics** like multi-factor regression, which helps pinpoint the critical factors from among an otherwise confusing, noisy mix of possibilities

Repeatability and Reproducibility –

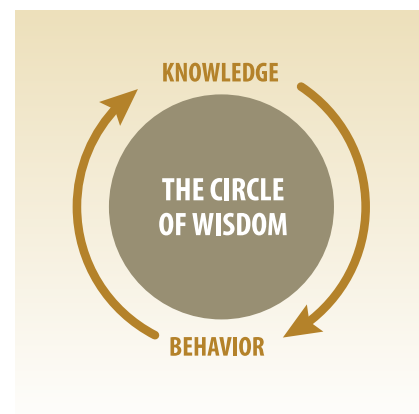
Academic research requires results to be repeatable and reproducible by the author and others, across multiple, comparable environments. This strengthens the reliability of the results and helps ensure they weren’t just random luck.

Peer Review – Last but hardly least, scholars must publish their detailed results and methodology, typically within an appropriate academic journal, so similarly credentialed peers can review their work and agree that the results are sound or rebut them with counterpoints.

Your Take-Home

As is the case in any healthy scholarly environment, those contributing to the lively inquiry about what drives market returns are rarely of one mind. Still, when backed by solid methodology and credible consensus, an evidence-based approach to investing offers the best opportunity to advance and apply well-supported findings; eliminate weaker proposals; and, most of all, strengthen your ability to build and/or preserve long-term personal wealth according to your unique goals.

David Bromelkamp
President and CEO



FINANCIAL PLANNING TIP:

Who is a Fiduciary?

Definition: A person to whom property or power is entrusted for the benefit of another.

Since thousands of people entrust their hard-earned money to financial advisors, shouldn't all financial professionals be considered fiduciaries? Until this year this was not the case. Non-fiduciary Advisors are required to provide "suitable" recommendations to you rather than advice that is in your best interest.

So what changed this year? A historic fiduciary ruling was passed by the Department of Labor (DOL). With the ruling, **anyone offering you advice about your retirement assets will be legally required to do so according to your best interests.**

That's the DOL's ruling in principle. In reality, it only applies to advice related to retirement accounts (401k, IRA, etc). Also, the ruling was watered down with limitations and exceptions. Still, Allodium applauds the DOL's aim in the right direction.

Many think being a fiduciary only applies to Financial Advisors. However, if you have responsibility such as a Trustee, Foundation board member, etc. we recommend you take some time to learn fiduciary investment best practices when managing another's financial affairs.

For free educational materials on fiduciary best practices, go to our website at www.aicria.com and look for fi360 materials under "Resources > Educational Documents."

Headlines

- David Bromelkamp's presentation at the National fi360 Insights Conference in April was a huge success with over 100 attendees.
- Several advisors at Allodium attended the MN Prayer Breakfast in April with clients.
- Allodium held a client focus group in May to discuss the look, feel and content of our performance reports. If you have any input that you'd like to share, feel free to contact your advisor!
- Allodium was pleased to welcome four new clients in the first quarter of 2016.
- Our office will be closed on July 4th and September 5th for company holidays.

Note: To find out more about Allodium's breaking news, please visit our website: www.aicria.com.

NEW EMPLOYEE SPOTLIGHT: VICTORIA SIMPSON

Role at Allodium: Marketing & Client Service Associate

Joined firm on: June 1, 2016

University attended: Harrogate College of Arts & Technology, England. Hotel & Hospitality Management degree

Hometown: Knaresborough, England

Favorite movie: Marley & Me

Favorite book: Marley & Me

Favorite TV show: Friends, Gordon Ramsey — Hells Kitchen & Master Chef

Favorite food(s): Filet Mignon & grilled asparagus, Mum's Yorkshire Puddings (like a popover) & gravy, Thai Red Chicken Curry

Favorite news source: MSN.com

Favorite gadget/technology: Google Chromecast (named Wjiji!)

Favorite activity: Spending time in the sunshine (gardening, walking, bicycle rides, boating, poolside, wining & dining with friends)

Person I admire most: My parents for the examples they set and the values they have taught me

What I'm most thankful for: My parents, my health and my wonderful friends

Favorite music: Sting, Sade, Seal, Adele



Sporting achievements/honors: British Freestyle Ski Team 1988-1999; 1990 World Junior Champion; 1992 British Olympic Team, Albertville, France; Attended 'Champions of The Queen' Garden Party at Buckingham Palace by invitation of Her Majesty The Queen

WE APPRECIATE YOUR INTRODUCTIONS

To optimize our objectivity and avoid conflicts of interest, we are a fee-only registered investment advisor that is completely independent from banks, brokerage firms and other financial product providers. If you know someone who may be looking for this type of objective investment advice, please contact Dave Bromelkamp at 612-230-3702 or dbromelkamp@aicria.com to arrange a friendly, no-obligation introduction.

Steward is published quarterly by Allodium Investment Consultants. Please contact Victoria Simpson at 612-230-3704 or vsimpson@aicria.com if you have any comments about this publication or wish to be added to or removed from our mailing list.



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